



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

March 30, 2009

Susan Weedman
Director of Human Capital
PacifiCare, a UnitedHealthcare Company
9900 Bren Road East MN008-T850
Minnetonka, MN 55343

Dear Ms. Weedman:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0237 for the period January 21, 2005 through January 20, 2007.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditors during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

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**PACIFICARE, A UNITEDHEALTHCARE
COMPANY**

Agreement No. ET05-0237

Final Audit Report

For The Period

January 21, 2005 through January 20, 2007

Report Published March 30, 2009

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AUDITOR'S REPORT

Summary

We performed an audit of PacifiCare, a UnitedHealthcare Company, Agreement No. ET05-0237, for the period January 21, 2005 through January 20, 2007. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period March 24, 2008 through March 28, 2009.

The Employment Training Panel (ETP) paid the Contractor a total of \$486,093.71. Our audit supported that \$482,218.71 is allowable. The balance of \$3,875 is disallowed and must be returned to ETP. The disallowed costs resulted from 12 trainees who did not meet training hour requirements and 1 duplicate trainee placement. In addition, we noted an administrative finding for record retention requirements.

AUDITOR'S REPORT (continued)

Background

PacifiCare, a UnitedHealthcare Company (PacifiCare) is a health care services company with 3 million members in eight states, as well as in Guam and the Philippines. The company is one of the few national health care service companies with its corporate headquarters and a significant part of its operations in California.

This is the third Agreement between PacifiCare and ETP. The training project provided for training in a new business model. PacifiCare was transitioning to a full-service Health and Consumer Services Organization that offers creative health care services. Its acquisitions had reinforced the need for systems and culture integration training. Therefore, the Agreement provided for business skills, commercial skills, computer skills, continuous improvement, management skills, and advanced technology skills training to facilitate PacifiCare's business strategies that center on investigations of new market opportunities, as well as re-contracting with provider networks with changing pricing guidelines, new coding guidelines, and customer service initiatives.

This Agreement allowed PacifiCare to receive a maximum reimbursement of \$582,660 for retraining 1,660 employees. During the Agreement term, the Contractor placed 790 trainees and was reimbursed \$486,093.71 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of PacifiCare, a UnitedHealthcare Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that PacifiCare, a UnitedHealthcare Company, complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time with the Contractor for 90 consecutive days after completing training, and the 90-day retention period was completed within the

AUDITOR'S REPORT (continued)

Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$482,218.71 of the \$486,093.71 paid to the Contractor under this Agreement was allowable. The balance of \$3,875 was not earned according to the terms of the Agreement and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with Susan Weedman, Director of Human Capital, at an exit conference held on March 28, 2008 and via e-mail on June 25, 2008. Ms. Weedman agreed to bypass the draft report and proceed to the final audit report.
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The issuance of your final audit report had been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning March 29, 2008 through the issue date of this final audit report. The interest waiver (adjustment) was \$306.87, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment by ETP to the Contractor, or three (3) years from the date of resolution of appeals, audits, claims, exceptions, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: March 28, 2008

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0237 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

PACIFICARE, A UNITEDHEALTHCARE COMPANY

AGREEMENT NO. ET05-0237

FOR THE PERIOD

JANUARY 21, 2005 THROUGH JANUARY 20, 2007

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 486,093.71</u>	
Costs Disallowed:		
Training Hour Requirements Not Met	2,835	Finding No. 1
Duplicate Trainee Placement	1,040	Finding No. 2
Record Retention	-	Finding No. 3
Total Costs Disallowed	<u>\$ 3,875</u>	
Training Costs Allowed	<u><u>\$ 482,218.71</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – PacifiCare, a UnitedHealthcare Company, (PacifiCare) training documentation did not support training hours reported for 12
Training Hour trainees. Therefore, we disallowed \$2,835 in training costs claimed
Requirements Not for these trainees.
Met

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Paragraph 2 (b) of the Agreement between PacifiCare and ETP states, "Reimbursement for class/lab training for trainees in Job Number #1 will be based on the total actual number of training hours completed... providing the minimum and no more than the maximum hours are met." The Agreement required that Job No. 1 trainees receive a minimum of 24 and a maximum of 80 class/lab training hours.

Title 22 CCR, Section 4422 states, "The Panel shall not reimburse an employer or contractor for training components designed to orient new or current employees to the policies or philosophy of either the employer(s), or of the Panel."

Exhibit A, paragraph VI of the Agreement states, "Contractor shall provide training pursuant to the Curriculum in Exhibit B." The course title "New Employee Orientation" is not identified in the curriculum.

PacifiCare's classroom training rosters did not support reported training hours for Trainee Nos. 5, 9, and 10 due to missing rosters and/or missing trainee signatures or initials. Based on Contractor training records maintained for Trainee Nos. 1, 3, 4, 5, 6, 7, 8, 11, 12, and 13, PacifiCare received reimbursement for training hours determined to be New Employee Orientation, which is not included in the Agreement between PacifiCare and ETP. The table on the next page shows the minimum class/lab hours required by the Agreement, class/lab hours reported to ETP by the Contractor, class/lab hours unsupported by Contractor training records, and audited class/lab hours for each of these trainees.

FINDINGS AND RECOMMENDATIONS (continued)

Trainee No.	Job No.	Minimum Class/Lab Hours	Reported Class/Lab Hours	Unsupported Class/Lab Hours	Audited Class/Lab Hours	Code
1	1	24	80.00	8	72.00	C
3	1	24	34.00	7	27.00	C
4	1	24	46.75	19	27.75	C
5	1	24	80.00	32.25	47.75	B,C
6	1	24	31.50	16	15.50	C
7	1	24	25.50	8	17.50	C
8	1	24	39.50	6	33.50	C
9	1	24	42.50	13	29.50	A
10	1	24	38.50	6	32.50	B
11	1	24	29.50	7	22.50	C
12	1	24	60.50	11	49.50	C
13	1	24	29.50	8	21.50	C
LEGEND:						
A = Trainee had missing class/lab rosters.						
B = Trainee did not sign and/or initial rosters.						
C = Trainee received nonfundable training: New Hire Orientation.						
Note:						
Trainee Nos. 6, 7, 11, and 13 below minimum required class/lab hours						

Recommendation PacifiCare must return \$2,835 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP. Additionally, the Contractor should ensure that training submitted to ETP for reimbursement is included the Agreement.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Duplicate Trainee Placement PacifiCare duplicated placement of one trainee. Therefore, we disallowed \$1,040 in training costs claimed for this trainee.

Paragraph 2 (d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.”

Exhibit A, paragraph V, states, “A trainee cannot be enrolled in the same job number more than once within the same project.”

Trainee No. 2 was a duplicate placement of the same trainee in Job No. 1, the sole job number for this Agreement. ETP paid PacifiCare for the maximum of 80 class/lab hours for both placements. Reimbursement for Trainee No. 2 was claimed under a duplicate name, but with a different Social Security Number (SSN) and PacifiCare Employee Identification Number (EIN). Employment Development Department base wage information did not support employment under Trainee No. 2’s reported SSN and PacifiCare could not provide payroll documentation for Trainee No. 2’s reported EIN. Furthermore, ETP Auditor noted signatures on PacificCare training rosters for Trainee No. 2 were the same signatures as that of the other Job No. 1 trainee placed with the same name. Thus, PacifiCare was paid twice for the same trainee in Job No. 1.

Recommendation PacifiCare must return \$1,040 to ETP. In the future, the Contractor should ensure all trainee information submitted to ETP is accurate, and that trainees are not submitted to ETP for reimbursement more than once in the same job number.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – PacifiCare did not maintain control of training documentation at its
Record Retention business premises. As a result, PacifiCare did not comply with Agreement requirements for record retention.

Title 22 California Code of Regulations (CCR), Section 4442 requires Contractors to maintain and make available records that clearly document all aspects of training and retention related to the training program. Furthermore, Title 22 CCR, Section 4442 (h) states “All records will be retained within the control of the primary contractor and shall be made available for review at the contractor’s place of business, within the State of California.”

According to the Contractor, during the course of this Agreement, PacifiCare forwarded all original training documentation to the subcontractor, Training Funding Partners (TFP). TFP then maintained those records on their own premises. The original training records were returned to PacificCare’s place of business after term of the Agreement. ETP Auditor noted missing training rosters during this audit.

Recommendation In the future, PacifiCare should ensure it retains all records related to the ETP Agreement. Missing or inadequate documentation may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006